

KENTON COUNTY BOARD OF EDUCATION

June 30, 2003

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

**KENTON COUNTY BOARD OF EDUCATION
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June 30, 2003**

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INDEPENDENT AUDITORS' REPORT

State Committee for School District Audits
Kenton County Board of Education
Erlanger, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Kenton County Board of Education, as of and for the year ended June 30, 2003, which collectively comprise the Board's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Kenton County Board of Education management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and the audit requirements included as an appendix to the state audit contract. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Kenton County Board of Education, as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated August 22, 2003, on our consideration of the Kenton County Board of Education's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

As described in Note 3, the Board has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as of June 30, 2003.

The management's discussion and analysis and budgetary comparison information on pages 1 through 7 and page 14, are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

State Committee for School District Audits
Kenton County Board of Education

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Kenton County Board of Education basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposed of additional analysis and are not a required part of the basic financial statements. The supplementary schedule of expenditures of federal awards is presented for the purpose of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the general purpose financial statements. The combining and individual nonmajor fund financial statements and the supplementary schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of management and the Kentucky Department of Education and is not intended to be, and should not be, used by anyone other than these specified parties.

VonLehman & Company Inc.

Fort Mitchell, Kentucky
August 22, 2003

**KENTON COUNTY BOARD OF EDUCATION
ERLANGER, KENTUCKY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED**

As management of the Kenton County Board of Education (Board), we offer readers of the Board's financial statements this narrative overview and analysis of the financial activities of the Board for the fiscal year ended June 30, 2003. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

Financial Highlights

Key financial highlights for fiscal year 2003 are as follows:

- In total, net assets increased \$1.5 million. Net assets of governmental activities increased \$1.4 million, which represents an 8 percent increase from fiscal year 2002. Net assets of the business-type activity, which represents food service, increased \$118 thousand or 9.7 percent from fiscal year 2002.
- General revenues accounted for \$57.2 million in revenue or 67 percent of all revenues. Program specific revenues, in the form of charges for services and sales, grants, and contributions, accounted for \$27.7 million or 33 percent of total revenues of \$84.9 million.
- Total assets of governmental activities decreased \$2 million primarily from decreased investment balances at the end of the fiscal year.
- The Board had \$79.1 million in expenses related to governmental activities; only \$23.3 million of these expenses were offset by program specific charges for services and sales, grants, and contributions. General revenues (primarily property taxes and grants and entitlements) of \$57.2 million were adequate to provide for these programs.
- \$33.8 million of General Fund revenue was derived from local taxation and investment income.

Overview of Financial Statements

This discussion and analysis is intended to serve as an introduction to the Board's basic financial statements. The Board's basic financial statements comprise three components: 1) district-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

District-Wide Financial Statements

The district-wide financial statements are designed to provide readers with a broad overview of the Board's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the Board's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Board is improving or deteriorating.

The statement of activities presents information showing how the Board's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

**KENTON COUNTY BOARD OF EDUCATION
ERLANGER, KENTUCKY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED
(Continued)**

The district-wide financial statements outline functions of the Board that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the Board include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt is also supported by taxes and intergovernmental revenues.

The district-wide financial statements can be found on pages 8 and 9 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The Board uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Board can be divided into three categories: governmental, proprietary funds and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The only proprietary fund is the food service operation. All other activities of the Board are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 10 through 19 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the district-wide and fund financial statements. The notes to the financial statements can be found on pages 20 through 34 of this report.

District-Wide Financial Analysis

The perspective of the statement of net assets is of the Board as a whole. Table 1 provides a summary of the Board's net assets for 2003 compared to 2002:

**KENTON COUNTY BOARD OF EDUCATION
ERLANGER, KENTUCKY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED
(Continued)**

**Table 1
Net Assets
(In Thousands)**

	Governmental Activities		Business-Type Activity		Total	
	2003	2002	2003	2002	2003	2002
<u>Assets</u>						
Current and Other Assets	\$ 13,296	\$ 25,239	\$ 949	\$ 725	\$ 14,245	\$ 25,964
Capital Assets, Net	<u>86,489</u>	<u>76,594</u>	<u>403</u>	<u>495</u>	<u>86,892</u>	<u>77,089</u>
Total Assets	<u>99,785</u>	<u>101,833</u>	<u>1,352</u>	<u>1,220</u>	<u>101,137</u>	<u>103,053</u>
<u>Liabilities</u>						
Current and Other Liabilities	6,164	6,922	14	-	6,178	6,922
Long-Term Liabilities	<u>74,729</u>	<u>77,447</u>	<u>-</u>	<u>-</u>	<u>74,729</u>	<u>77,447</u>
Total Liabilities	<u>80,893</u>	<u>84,369</u>	<u>14</u>	<u>-</u>	<u>80,907</u>	<u>84,369</u>
<u>Net Assets</u>						
Invested in Capital Assets						
Net of Related Debt	9,714	(3,261)	403	495	10,117	(2,766)
Restricted	-	-	-	-	-	-
Unrestricted	<u>9,178</u>	<u>20,725</u>	<u>935</u>	<u>725</u>	<u>10,113</u>	<u>21,450</u>
Total Net Assets	<u>\$ 18,892</u>	<u>\$ 17,464</u>	<u>\$ 1,338</u>	<u>\$ 1,220</u>	<u>\$ 20,230</u>	<u>\$ 18,684</u>

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the Board, assets exceeded liabilities by \$20.2 million as of June 30, 2003.

The largest portion of the Board's net assets reflects its investment in capital assets (e.g. land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress), less any related debt used to acquire those assets that is still outstanding. The Board uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the Board's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The Board's financial position is the product of several financial transactions, including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

Total assets decreased \$2 million. Equity in cash and cash equivalents increased \$2.5 million. Property taxes receivable increased \$99 thousand; these increases are offset by an increase in deferred revenue of \$333 thousand.

Net assets of the Board's governmental activities increased \$1.4 million. The net assets of the Board's business-type activity increased \$119 thousand.

Table 2 reflects the change in net assets for fiscal year 2003. It should be noted that on-behalf payments, shown as increases in both revenues and expenses, were not recorded in 2002. In addition, other items such as depreciation and capital improvements have been estimated for 2002.

**KENTON COUNTY BOARD OF EDUCATION
ERLANGER, KENTUCKY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED
(Continued)**

**Table 2
Change in Net Assets
(In Thousands)**

	Governmental Activities		Business-Type Activity		Total	
	2003	2002	2003	2002	2003	2002
Revenues						
Program Revenues						
Charges for Services	\$ 1,518	\$ 1,385	\$ 2,476	\$ 2,431	\$ 3,994	\$ 3,816
Operating Grants and Contributions	21,819	7,739	1,655	1,039	23,474	8,778
Capital Grants and Contributions	-	-	229	-	229	-
Total Program Revenues	<u>23,337</u>	<u>9,124</u>	<u>4,360</u>	<u>3,470</u>	<u>27,697</u>	<u>12,594</u>
General Revenues						
Property Taxes	25,019	23,472	-	-	25,019	23,472
Other Taxes	8,005	7,146	-	-	8,005	7,146
Grants and Entitlements	23,391	26,577	-	-	23,391	26,577
Earnings on Investments	739	768	25	14	764	782
Miscellaneous	54	190	-	-	54	190
Total General Revenues	<u>57,208</u>	<u>58,153</u>	<u>25</u>	<u>14</u>	<u>57,233</u>	<u>58,167</u>
Total Revenues	<u>80,545</u>	<u>67,277</u>	<u>4,385</u>	<u>3,484</u>	<u>84,930</u>	<u>70,761</u>
Program Expenses						
Instruction	44,342	38,123	-	-	44,342	38,123
Support Services						
Student and Instructional Staff	6,411	5,551	-	-	6,411	5,551
Administration and Business	6,337	5,633	-	-	6,337	5,633
Central Office	515	594	-	-	515	594
Operation and Maintenance of Plant	7,178	7,416	-	-	7,178	7,416
Student Transportation	5,809	4,895	-	-	5,809	4,895
Community Service	624	528	-	-	624	528
Interest and Fiscal Charges	4,097	2,985	-	-	4,097	2,985
Site Improvement	366	212	-	-	366	212
Depreciation	3,438	3,400	-	-	3,438	3,400
Food Service	-	-	4,266	3,311	4,266	3,311
Total Expenses	<u>79,117</u>	<u>69,337</u>	<u>4,266</u>	<u>3,311</u>	<u>83,383</u>	<u>72,648</u>
Increase (Decrease) in Net Assets	<u>\$ 1,428</u>	<u>\$ (2,060)</u>	<u>\$ 119</u>	<u>\$ 173</u>	<u>\$ 1,547</u>	<u>\$ (1,887)</u>

**KENTON COUNTY BOARD OF EDUCATION
ERLANGER, KENTUCKY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED
(Continued)**

Governmental Activities

The statement of activities reflects the cost of program services and the charges for services and sales, grants, and contributions offsetting those services. Table 3, for government activities, indicates the total cost of services and the net cost of services. It identifies the cost of these services supported by tax revenues and unrestricted state entitlements.

**Table 3
Governmental Activities
(In Thousands)**

	<u>Total Cost of Services</u>		<u>Net Cost of Services</u>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Instruction	\$ 44,342	\$ 38,123	\$ 33,439	\$ 31,324
Support Services				
Student and Instructional Staff	6,411	5,551	4,637	5,551
Administration and Business	6,337	5,633	5,795	5,633
Central Office	515	594	372	594
Operation and Maintenance of Plant	7,178	7,416	6,511	7,416
Student Transportation	5,809	4,895	(620)	3,771
Community Service	624	528	17	446
Interest and Fiscal Charges	4,097	2,985	3,630	2,985
Site Improvement	366	212	(1,439)	(907)
Depreciation	<u>3,438</u>	<u>3,400</u>	<u>3,438</u>	<u>3,400</u>
Total Expenses	<u>\$ 79,117</u>	<u>\$ 69,337</u>	<u>\$ 55,780</u>	<u>\$ 60,213</u>

The dependence upon tax revenues for governmental activities is apparent. Over 70 percent of instruction activities are supported through taxes and other general revenues. For all governmental activities general revenues support is 76 percent. The community, as a whole, is the primary support for Kenton County Board of Education students.

Business-Type Activity

The only business-type activity of the Board is the food service operation. This program had revenues and transfers of \$4.3 million and expenses of \$4.2 million for fiscal year 2003. Total revenues increased \$805 thousand and expenses increased \$859 thousand from the prior fiscal year. For fiscal year 2003, there was a small increase in salary and fringe benefits expenses.

The Board of Education continues to examine the food service operation in effort to be self-operating without assistance from the General Fund. The business activity receives no support from tax revenues.

The Board's Funds

The Board's governmental funds are accounted for using the modified accrual basis of accounting. Total governmental funds had revenues and other financing sources of \$96.4 million and expenditures and other financing uses of \$107.3 million. The negative change in fund balance for the year is primarily due to payments made on bonds and construction projects from prior year reserves.

**KENTON COUNTY BOARD OF EDUCATION
ERLANGER, KENTUCKY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED
(Continued)**

General Fund Budgeting Highlights

The Board's budget is prepared according to Kentucky law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. In Kentucky the public school fiscal year is July 1 - June 30; other programs, i.e. some federal operate on a different fiscal calendar, but are reflected in the overall budget. By law the budget must have a minimum 2 percent contingency. The Board adopted a budget with \$3.3 million in contingency (5.5 percent). The beginning cash balance for beginning the fiscal year is \$5.9 million. The most significant budgeted fund is the General Fund.

During the course of fiscal 2003, the Board amended its General Fund budget as needed. The Board uses a site-based budget. The budgeting systems are designed to tightly control total site budgets, but provide flexibility for site management.

For the General Fund, final budgeted revenues and other financing sources, in the amount of \$56.2 million, were above original budgeted revenues and other financing sources, in the amount of \$55.1 million. Of this \$1.1 million difference, most was due to conservative tax estimates, and state revenue estimates.

Expenditures and other financing uses were budgeted at \$61.9 million while actual expenditures were \$63.8 million. The major difference comes from district administration and instructional expenses.

The Board recorded on-behalf payments in 2003 totaling \$10.0 million as required by KDE. Since these payments were not recorded in prior years, nor budgeted for the current year, 2003 actual amounts are higher than 2002 actual amounts and also higher than 2003 budgeted amounts.

General Fund revenues and other financing sources were more than expenditures and other financing uses by approximately \$1.6 million.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2003, the Board had \$86.9 million invested in capital assets, \$86.5 million in governmental activities.

Table 4 reflects fiscal year 2003 balances compared to fiscal year 2002.

**Table 4
Capital Assets at June 30
(Net of Depreciation, In Thousands)**

	Governmental Activities		Business-Type Activity		Total	
	2003	2002	2003	2002	2003	2002
Land	\$ 2,108	\$ 2,108	\$ -	\$ -	\$ 2,108	\$ 2,108
Land Improvements	1,325	1,227	-	-	1,325	1,227
Buildings and Building Improvements	62,286	59,244	-	-	62,286	59,244
Technology Equipment	1,732	2,231	5	12	1,737	2,243
Vehicles	2,190	2,641	-	-	2,190	2,641
General Equipment	380	477	398	483	778	960
Construction in Progress	16,469	8,666	-	-	16,469	8,666
	<u>\$ 86,490</u>	<u>\$ 76,594</u>	<u>\$ 403</u>	<u>\$ 495</u>	<u>\$ 86,893</u>	<u>\$ 77,089</u>

**KENTON COUNTY BOARD OF EDUCATION
ERLANGER, KENTUCKY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED
(Continued)**

The primary increase in capital assets for governmental activities is a result of the renovation at two high schools, as well as routine computer and computer related purchases.

Debt

At June 30, 2003, the Board had \$76.8 million in outstanding bonds. The bonds are being paid from the debt service fund.

During 2003, the Board issued school building revenue refunding bonds totaling \$15,880,000. These bonds refinanced \$15,880,000 in bonds that were originally issued in 1993 which resulted in an annual savings of \$105,000 for ten years.

Current Issues

In response to state revenue shortfalls for two consecutive fiscal years, the Kenton County District Budget Advisory Committee reviewed staffing policies and various budget items. Recommendations from the Committee resulted in the implementation of approximately \$5 million in budget adjustments over the past two years. These adjustments have resulted in an increase of \$1.5 million to the unreserved General Fund balance. These actions will alleviate additional revenue shortfalls that are anticipated from state sources.

Property values and newly developed property in the district continue to increase. The declining economy slowed property growth in 2002 to 2.7%. However, in 2003 property growth rebounded to 5.7%, and has averaged 5.75% over the last five years. Newly developed property has averaged \$127 million per year since 1999. Enrollment has steadily increased from 11,897 in 1994 to 12,337 in 2003. Continued commercial and residential expansion in the district is expected to maintain this slow but increasing population growth.

The Board remains committed to increasing staff salaries and responding to the competitive educational environment that exists in Northern Kentucky. The beginning teacher salary was increased to \$30,000, while the top end of the 185 day salary schedule for teachers stands at \$56,275. The budget impact of providing a 4.5% average salary increase for all staff members is \$2.1 million.

Following the completion of the Board's facility needs assessment, there is a concerted focus on investing in capital construction considering the age and size of our facilities that have significant needs. To address these immediate needs, approximately \$63 million of new construction and renovation will begin within the next twelve months. State assistance has been procured for financing 20% of the projects.

Contacting the Board's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the Board's finances and to reflect the Board's accountability for the monies it receives. Questions about this report or additional financial information needs should be directed to the Superintendent or to Kelley Gamble, Treasurer, 859/344-8888, or by mail at 20 Kenton Lands Road, Erlanger, Kentucky 41018.

KENTON COUNTY BOARD OF EDUCATION
STATEMENT OF NET ASSETS
June 30, 2003

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
Assets			
Current Assets			
Cash and Cash Equivalents	\$ 7,675,596	\$ 783,448	\$ 8,459,044
Accounts Receivable			
Taxes - Current	690,777	-	690,777
Taxes - Delinquent	27,936	-	27,936
Accounts	181,918	-	181,918
Intergovernmental - State	1,450	-	1,450
Intergovernmental - Indirect Federal	560,879	165,089	725,968
Investments	<u>4,157,398</u>	<u>-</u>	<u>4,157,398</u>
Total Current Assets	<u>13,295,954</u>	<u>948,537</u>	<u>14,244,491</u>
Noncurrent Assets			
Land and Construction in Progress	18,576,812	-	18,576,812
Depreciable Capital Assets	110,919,421	2,515,961	113,435,382
Less Accumulated Depreciation	<u>(43,006,702)</u>	<u>(2,112,624)</u>	<u>(45,119,326)</u>
Total Noncurrent Assets	<u>86,489,531</u>	<u>403,337</u>	<u>86,892,868</u>
Total Assets	<u>\$ 99,785,485</u>	<u>\$ 1,351,874</u>	<u>\$ 101,137,359</u>
Liabilities			
Current Liabilities			
Accounts Payable	\$ 450,720	\$ 13,624	\$ 464,344
Current Portion of Bond Obligations	3,855,000	-	3,855,000
Current Portion of Accumulated Sick Leave	200,992	-	200,992
Interest Payable	919,194	-	919,194
Deferred Revenue	<u>738,343</u>	<u>-</u>	<u>738,343</u>
Total Current Liabilities	<u>6,164,249</u>	<u>13,624</u>	<u>6,177,873</u>
Noncurrent Liabilities			
Noncurrent Portion of Accumulated Sick Leave	1,808,932	-	1,808,932
Noncurrent Portion of Bond Obligations	<u>72,920,000</u>	<u>-</u>	<u>72,920,000</u>
Total Noncurrent Liabilities	<u>74,728,932</u>	<u>-</u>	<u>74,728,932</u>
Total Liabilities	<u>80,893,181</u>	<u>13,624</u>	<u>80,906,805</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	9,714,531	403,337	10,117,868
Unrestricted	<u>9,177,773</u>	<u>934,913</u>	<u>10,112,686</u>
Total Net Assets	<u>\$ 18,892,304</u>	<u>\$ 1,338,250</u>	<u>\$ 20,230,554</u>

See accompanying notes.

**KENTON COUNTY BOARD OF EDUCATION
STATEMENT OF ACTIVITIES
Year Ended June 30, 2003**

Functions	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business Type Activities	Total
Governmental Activities							
Instruction	\$ 44,342,343	\$ 513,457	\$ 10,389,425	\$ -	\$ (33,439,461)	\$ -	\$ (33,439,461)
Support Services							
Student	4,055,785	-	896,743	-	(3,159,042)	-	(3,159,042)
Instructional Staff	2,355,239	-	877,434	-	(1,477,805)	-	(1,477,805)
District Administration	1,989,298	-	19,421	-	(1,969,877)	-	(1,969,877)
School Administration	3,903,402	-	433,726	-	(3,469,676)	-	(3,469,676)
Business	443,958	-	88,276	-	(355,682)	-	(355,682)
Central Office	515,523	-	143,976	-	(371,547)	-	(371,547)
Plant Operation and Maintenance	7,178,053	32,370	634,405	-	(6,511,278)	-	(6,511,278)
Student Transportation	5,809,079	884,093	5,545,674	-	620,688	-	620,688
Community Service Operations	623,576	88,525	517,966	-	(17,085)	-	(17,085)
Facilities Acquisition and Construction							
Site Improvement	366,116	-	1,804,716	-	1,438,600	-	1,438,600
Interest on Long-Term Debt	4,096,840	-	466,993	-	(3,629,847)	-	(3,629,847)
Depreciation	3,438,040	-	-	-	(3,438,040)	-	(3,438,040)
Total Governmental Activities	79,117,252	1,518,445	21,818,755	-	(55,780,052)	-	(55,780,052)
Business-Type Activities							
Food Service	4,265,816	2,475,529	1,654,716	228,966	-	93,395	93,395
Total School District	\$ 83,383,068	\$ 3,993,974	\$ 23,473,471	\$ 228,966	\$ (55,780,052)	\$ 93,395	\$ (55,686,657)
General revenues:							
Property Taxes Levied for							
General Purposes					\$ 19,282,524	\$ -	\$ 19,282,524
Building					5,736,156	-	5,736,156
Other Taxes							
Motor Vehicle					3,522,354	-	3,522,354
Utilities					4,339,535	-	4,339,535
Other					143,131	-	143,131
Federal and State Aid Not Restricted to Specific Purposes					23,391,015	-	23,391,015
Earnings on Investments					739,109	25,185	764,294
Miscellaneous					54,483	-	54,483
Total General Revenues					<u>57,208,307</u>	<u>25,185</u>	<u>57,233,492</u>
Change in Net Assets					1,428,255	118,580	1,546,835
Net Assets July 1, 2002					<u>17,464,049</u>	<u>1,219,670</u>	<u>18,683,719</u>
Net Assets June 30, 2003					<u>\$ 18,892,304</u>	<u>\$ 1,338,250</u>	<u>\$ 20,230,554</u>

See accompanying notes.

**KENTON COUNTY BOARD OF EDUCATION
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2003**

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Construction Fund</u>	<u>Debt Service Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets						
Cash and Cash Equivalents	\$ 6,610,276	\$ 177,734	\$ 887,586	\$ -	\$ -	\$ 7,675,596
Accounts Receivable						
Taxes - Current	690,777	-	-	-	-	690,777
Taxes - Delinquent	27,936	-	-	-	-	27,936
Accounts	181,918	-	-	-	-	181,918
Intergovernmental - State	1,450	-	-	-	-	1,450
Intergovernmental - Indirect Federal	-	560,879	-	-	-	560,879
Investments	-	-	4,157,398	-	-	4,157,398
Total Assets	<u>\$ 7,512,357</u>	<u>\$ 738,613</u>	<u>\$ 5,044,984</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,295,954</u>
Liabilities and Equity and Fund Balances						
Liabilities						
Accounts Payable	\$ 169,120	\$ 270	\$ 281,330	\$ -	\$ -	\$ 450,720
Current Portion of Accumulated Sick Leave	200,992	-	-	-	-	200,992
Deferred Revenue	-	738,343	-	-	-	738,343
Total Liabilities	<u>370,112</u>	<u>738,613</u>	<u>281,330</u>	<u>-</u>	<u>-</u>	<u>1,390,055</u>
Fund Balances						
Reserved for						
Site Based Carryover	238,724	-	-	-	-	238,724
Unreserved						
Undesignated, Reported in						
General Fund	6,903,521	-	-	-	-	6,903,521
Construction Fund	-	-	4,763,654	-	-	4,763,654
Total Fund Balances	<u>7,142,245</u>	<u>-</u>	<u>4,763,654</u>	<u>-</u>	<u>-</u>	<u>11,905,899</u>
Total Liabilities and Fund Balances	<u>\$ 7,512,357</u>	<u>\$ 738,613</u>	<u>\$ 5,044,984</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,295,954</u>

See accompanying notes.

KENTON COUNTY BOARD OF EDUCATION
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO
THE STATEMENT OF NET ASSETS
June 30, 2003

Amounts reported for governmental activities in the statement of net assets
are different because:

Total Fund Balance - Governmental Funds	\$ 11,905,899
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Capital assets used in governmental activities are not financial
resources and therefore are not reported as assets in
governmental funds.

Cost of Capital Assets	129,496,233	
Accumulated Depreciation	<u>(43,006,702)</u>	
		86,489,531

Long-term liabilities, including bonds payable, are not
due and payable in the current period and therefore
are not reported as liabilities in the funds. Long-term
liabilities at year end consist of:

Bonds Payable	76,775,000	
Accrued Interest on the Bonds	919,194	
Accumulated Sick Leave	<u>1,808,932</u>	
		<u>(79,503,126)</u>

Total Net Assets - Governmental Activities	\$ <u><u>18,892,304</u></u>
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See accompanying notes.

**KENTON COUNTY BOARD OF EDUCATION
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
Year Ended June 30, 2003**

	General Fund	Special Revenue Funds	Construction Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Revenues						
From Local Sources						
Taxes						
Property	\$ 19,282,524	\$ -	\$ -	\$ -	\$ 5,736,156	\$ 25,018,680
Motor Vehicle	3,522,354	-	-	-	-	3,522,354
Utilities	4,339,535	-	-	-	-	4,339,535
Other	119,221	-	-	-	23,910	143,131
Tuition and Fees	295,470	5,338	-	-	-	300,808
Transportation Fees	683,821	-	-	-	-	683,821
Earnings on Investments	628,726	-	110,383	-	-	739,109
Student Activities	2,500	-	-	-	-	2,500
Community Service Activities	88,525	-	-	-	-	88,525
Other Local Revenue	445,291	-	-	-	-	445,291
Intergovernmental - State	35,943,134	4,137,433	-	466,993	1,330,449	41,878,009
Intergovernmental - Indirect Federal	-	3,331,761	-	-	-	3,331,761
Total Revenues	65,351,101	7,474,532	110,383	466,993	7,090,515	80,493,524
Expenditures						
Current						
Instruction	38,709,402	5,221,219	-	-	-	43,930,621
Support Services						
Student	3,544,927	469,491	-	-	-	4,014,418
Instructional Staff	1,707,406	618,493	-	-	-	2,325,899
District Administration	1,973,895	-	-	-	-	1,973,895
School Administration	3,828,007	-	-	-	-	3,828,007
Business	386,923	55,908	-	-	-	442,831
Central Office	425,883	85,714	-	-	-	511,597
Plant Operation & Maintenance	7,677,387	-	-	-	-	7,677,387
Student Transportation	5,404,189	361,761	-	-	-	5,765,950
Community Service Operations	107,947	511,492	-	-	-	619,439
Facilities Acquisition and Construction						
Site Improvement	-	-	12,596,270	-	103,572	12,699,842
Educational Specifications	-	474,267	-	-	-	474,267
Debt Service	-	-	-	23,008,446	-	23,008,446
Total Expenditures	63,765,966	7,798,345	12,596,270	23,008,446	103,572	107,272,599
Deficit of Revenues Over Expenditures	1,585,135	(323,813)	(12,485,887)	(22,541,453)	6,986,943	(26,779,075)
Other Financing Sources (Uses)						
Miscellaneous	130,926	15,550	-	-	-	146,476
Proceeds from Sale of Fixed Assets	159,937	-	-	-	-	159,937
Bond Fees Paid to Fiscal Agent	-	-	(254,430)	-	-	(254,430)
Bond Proceeds	-	-	15,880,000	-	-	15,880,000
Operating Transfers In	-	308,263	494,023	-	-	802,286
Operating Transfers Out	(308,263)	-	-	-	(494,023)	(802,286)
Transfers In/(Out) for Debt Service	-	-	(15,625,570)	22,534,109	(6,908,539)	-
Total Other Financing Sources (Uses)	(17,400)	323,813	494,023	22,534,109	(7,402,562)	15,931,983
Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	1,567,735	-	(11,991,864)	(7,344)	(415,619)	(10,847,092)
Fund Balance July 1, 2002, as Originally Stated	5,703,064	-	16,755,518	7,344	415,619	22,881,545
Prior Period Adjustment	(128,554)	-	-	-	-	(128,554)
Fund Balance July 1, 2002, as Restated	5,574,510	-	16,755,518	7,344	415,619	22,752,991
Fund Balance June 30, 2003	\$ 7,142,245	\$ -	\$ 4,763,654	\$ -	\$ -	\$ 11,905,899

See accompanying notes.

**KENTON COUNTY BOARD OF EDUCATION
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO
THE DISTRICT-WIDE STATEMENT OF ACTIVITIES
Year Ended June 30, 2003**

Amounts reported for governmental activities in the statement of activities
are different because:

Total net change in fund balances - governmental funds \$ (10,847,092)

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation expense in the statement of activities. This is the amount by which depreciation exceeds capital outlays in the period.

Depreciation Expense	3,438,040	
Capital Outlays	<u>(13,333,726)</u>	9,895,686

The proceeds from the issuance of bonds provide current financial resources and are reported in the fund financial statement but they are presented as liabilities in the statement of net assets (15,880,000)

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the statement of activities is a result of the change in accrued interest on bonds. (48,394)

In the statement of activities, compensated absences (sick leave) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). The additional expense reported in the statement of activities is a result of the change in long-term accumulated sick leave. (651,945)

Repayment of bond principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities. 18,960,000

Total Change in Net Assets - Governmental Activities \$ 1,428,255

See accompanying notes.

KENTON COUNTY BOARD OF EDUCATION
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
Year Ended June 30, 2003

	Budgeted Amounts			Variance with Final Budget Favorable (Unfavorable)
	Original	Final	Actual	
Revenues				
From Local Sources				
Taxes				
Property	\$ 19,201,035	\$ 19,301,035	\$ 19,282,524	\$ (18,511)
Motor Vehicle	3,400,154	3,488,154	3,522,354	34,200
Utilities	3,889,235	3,988,235	4,339,535	351,300
Other	78,520	113,520	119,221	5,701
Tuition and Fees	188,100	265,100	295,470	30,370
Transportation Fees	573,369	648,369	683,821	35,452
Earnings on Investments	400,000	400,000	628,726	228,726
Student Activities	8,840	8,840	2,500	(6,340)
Community Service Activities	82,612	82,612	88,525	5,913
Other Local Revenue	483,925	506,950	445,291	(61,659)
Intergovernmental - State	26,635,717	27,304,516	35,943,134	8,638,618
Total Revenues	54,941,507	56,107,331	65,351,101	9,243,770
Expenditures				
Current				
Instruction	34,518,336	34,321,113	38,709,402	(4,388,289)
Support Services				-
Student	3,129,930	3,129,930	3,544,927	(414,997)
Instructional Staff	1,553,117	1,629,429	1,707,406	(77,977)
District Administration	5,367,501	6,209,874	1,973,895	4,235,979
School Administration	3,273,411	3,389,411	3,828,007	(438,596)
Business	419,435	419,435	386,923	32,512
Central Office	426,599	426,599	425,883	716
Plant Operation & Maintenance	7,097,536	7,277,536	7,677,387	(399,851)
Student Transportation	4,691,888	4,691,888	5,404,189	(712,301)
Community Service Operations	103,717	103,717	107,947	(4,230)
Total Expenditures	60,581,470	61,598,932	63,765,966	(2,167,034)
(Deficit) Excess of Revenues Over Expenditures	(5,639,963)	(5,491,601)	1,585,135	11,410,804
Other Financing Sources (Uses)				
Miscellaneous	77,500	77,500	130,926	53,426
Proceeds from Sale of Fixed Assets	19,300	19,300	159,937	140,637
Operating Transfers Out	(70,000)	(308,263)	(308,263)	-
Total Other Financing Sources (Uses)	26,800	(211,463)	(17,400)	194,063
(Deficit) Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	(5,613,163)	(5,703,064)	1,567,735	11,604,867
Fund Balance July 1, 2002, as Originally Stated	5,613,163	5,703,064	5,703,064	(4,462,622)
Prior Period Adjustment	-	-	(128,554)	(128,554)
Fund Balance July 1, 2002, as Restated	5,613,163	5,703,064	5,574,510	(4,591,176)
Fund Balance June 30, 2003	\$ -	\$ -	\$ 7,142,245	\$ 7,142,245

See accompanying notes.

KENTON COUNTY BOARD OF EDUCATION
STATEMENT OF NET ASSETS
PROPRIETARY FUND
June 30, 2003

	Business-Type Activities Food Service Fund
Assets	
Current Assets	
Cash and Cash Equivalents	\$ 783,448
Accounts Receivable	
Intergovernmental - Indirect Federal	165,089
Total Current Assets	<u>948,537</u>
Noncurrent Assets	
Depreciable Capital Assets	2,515,961
Less Accumulated Depreciation	<u>(2,112,624)</u>
Total Noncurrent Assets	<u>403,337</u>
Total Assets	<u><u>\$ 1,351,874</u></u>
Liabilities	
Current Liabilities	
Accounts Payable	\$ <u>13,624</u>
Total Liabilities	<u>13,624</u>
Net Assets	
Invested in Capital Assets	403,337
Unrestricted	<u>934,913</u>
Total Net Assets	<u><u>\$ 1,338,250</u></u>

See accompanying notes.

KENTON COUNTY BOARD OF EDUCATION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUND
Year Ended June 30, 2003

	Business-Type Activities
	Food Service Fund
Operating Revenues	
Lunchroom Sales	\$ 2,475,529
Operating Expenses	
Salaries and Wages	2,243,930
Contract Services	114,610
Materials and Supplies	1,701,294
Depreciation	92,039
Other Operating Expenses	113,943
Total Operating Expenses	4,265,816
Operating Loss	(1,790,287)
Non-Operating Revenues	
Federal Grants	1,007,535
Donated Commodities	228,966
State Grants	647,181
Interest Income	25,185
Total Non-Operating Revenues	1,908,867
Net Income	118,580
Net Assets July 1, 2002, as Originally Stated	724,294
Prior Period Adjustment	495,376
Net Assets July 1, 2002, as Restated	1,219,670
Net Assets June 30, 2003	\$ 1,338,250

See accompanying notes.

KENTON COUNTY BOARD OF EDUCATION
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
Year Ended June 30, 2003

	Business-Type Activities
	Food Service Fund
Cash Flows From Operating Activities	
Cash Received from Lunchroom Sales	\$ 2,475,529
Cash Paid to/for Employees	(1,648,366)
Supplies	(1,458,704)
Other Activities	(228,553)
	<u>(860,094)</u>
Net Cash Used by Operating Activities	<u>(860,094)</u>
Cash Flows from Non Capital Financing Activities	
Federal Grants	935,925
State Grants	51,617
	<u>987,542</u>
Net Cash Provided by Non Capital Financing Activities	<u>987,542</u>
Cash Flows from Investing Activities	
Interest Income	<u>25,185</u>
Net Change in Cash	152,633
Cash and Cash Equivalents July 1, 2002	<u>630,815</u>
Cash and Cash Equivalents June 30, 2003	<u><u>\$ 783,448</u></u>
Reconciliation of Operating Loss to Net Cash	
Used by Operating Activities	
Operating Loss	\$ (1,790,287)
Adjustments to Reconcile Operating Loss to Net Cash	
Used by Operating Activities	
Depreciation	92,039
Donated Commodities Received from Federal Government	228,966
On-Behalf Payments for Salaries and Benefits Paid Directly by the State	595,564
Change in Assets and Liabilities	
Accounts Payable	<u>13,624</u>
Net Cash Used by Operating Activities	<u><u>\$ (860,094)</u></u>
Non-Cash Non-Capital Financing Activities	
Donated Commodities Received from Federal Government	<u><u>\$ 228,966</u></u>
Other Non-Cash Transactions	
On-Behalf Payments for Salaries and Benefits Paid Directly by the State	<u><u>\$ 595,564</u></u>

See accompanying notes.

KENTON COUNTY BOARD OF EDUCATION
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2003

	Private Purpose Trust Funds	Agency Fund
Assets and Resources		
Cash and Cash Equivalents	\$ 43,941	\$ 883,632
Accounts Receivable	<u>-</u>	<u>25,172</u>
Total Assets and Resources	<u><u>\$ 43,941</u></u>	<u><u>\$ 908,804</u></u>
Liabilities		
Due to Student Groups	\$ -	\$ 900,412
Accounts Payable	<u>-</u>	<u>8,392</u>
Total Liabilities	<u>-</u>	<u>908,804</u>
Net Assets Held in Trust	<u><u>\$ 43,941</u></u>	<u><u>\$ -</u></u>

See accompanying notes.

**KENTON COUNTY BOARD OF EDUCATION
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
Year Ended June 30, 2003**

	Private Purpose Trust Funds
Additions	
Earnings on Investments	\$ 1,312
Deductions	
Current	
Instruction	<u>500</u>
Change in Net Assets	812
Net Assets July 1, 2002	<u>43,129</u>
Net Assets June 30, 2003	<u><u>\$ 43,941</u></u>

See accompanying notes.

KENTON COUNTY BOARD OF EDUCATION NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – REPORTING ENTITY

The Kenton County Board of Education (Board), a five member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Kenton County School District. The Board receives funding from local, state and federal government sources and must comply with the commitment requirements of these funding source entities. However, the Board is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards as Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations and primary accountability for fiscal matters.

The Board, for financial purposes, includes all of the funds and account groups relevant to the operation of the Kenton County Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

The financial statements of the Board include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements:

Kenton County School District Finance Corporation

The Board authorized establishment of the Kenton County School District Finance Corporation. It is a non-stock, non-profit public and charitable corporation pursuant to Section 162.385 of the School Bond Act and Chapter 273 and Section 58.180 of the Kentucky Revised Statutes to act as an agency of the Board for financing the costs of school building facilities. The Board of Directors of the Corporation shall be the same persons who are at any time the members of the Board of Education of the Kenton County School District.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of certain significant accounting policies followed in the preparation of these financial statements.

Basis of Presentation

District-Wide Financial Statements - The statement of net assets and the statement of activities display information about the Board as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the Board that are governmental and those that are considered business-type activities.

The district-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the district-wide statements and the statements for governmental funds.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The district-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of Board and for each function or program of the Board's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the Board, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the Board.

Fund Financial Statements - Fund financial statements report detailed information about the Board. The focus of governmental and proprietary fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in net total assets. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the Board finances and meets the cash flow needs of its proprietary activities.

The Board has the following funds:

I. Governmental Fund Types

- (A) The General Fund is the main operating fund of the Board. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any unrestricted fund balances are considered as resources available for use. This is a major fund of the Board.
- (B) The Special Revenue (Grant) Funds account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report on pages 51 and 52. This is a major fund of the Board.
- (C) Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Fund).
 - 1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the Board's facility plan.
 - 2. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the Board's facility plan.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction and/or remodelings. This is a major fund of the Board.
- (D) The Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and for the payment of interest on general obligation notes payable as required by Kentucky Law. This is a major fund of the Board.

II. Proprietary Fund Types (Enterprise Fund)

- (A) The Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. The Food Service Fund is a major fund.

The Board applies all GASB pronouncements to proprietary funds as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

III. Fiduciary Fund Type (Agency and Private Purpose Trust Funds)

- (A) The Agency fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with the Uniform Program of Accounting for School Activity Funds.
- (B) The Private Purpose Trust funds are used to report trust arrangements under which principal and income benefit individuals, private organizations or other governments.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. District-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues - Exchange and Non-exchange Transactions - Revenues resulting from exchange transactions, in which each party receives essentially equal value, are recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Board available means expected to be received within sixty days of the fiscal year-end.

Nonexchange transactions, in which the Board receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Board must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Board on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before they can be recognized.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and changes in net assets as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

Property Taxes

Property Tax Revenues - Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General Fund and then transferred to the appropriate fund.

The property tax rates assessed for the year ended June 30, 2003, to finance the General Fund operations were \$.492 per \$100 valuation for real property, \$.492 per \$100 valuation for business personal property and \$.635 per \$100 valuation for motor vehicles.

The Board levies a utility gross receipts license tax in the amount of 3% of the gross receipts derived from the furnishings, within the county, of telephonic and telegraphic communications services, cablevision services, electric power, water, and natural, artificial and mixed gas.

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the district-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the district-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The Board maintains a capitalization threshold of one thousand dollars with the exception of computers, digital cameras and real property for which there is no threshold. The Board does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and Building Improvements	25-50 Years
Land Improvements	20 Years
Technology Equipment	5 Years
Vehicles	5-10 Years
General Equipment	10 Years

Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will receive from the Board an amount equal to 30% of the value of accumulated sick leave.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the Board's past experience of making termination payments.

The entire compensated absence liability is reported on the district-wide financial statements.

For governmental fund financial statements the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "accumulated sick leave payable" in the general fund. The noncurrent portion of the liability is not reported.

Budgetary Process

Budgetary Basis of Accounting - The Board's budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major differences between the budgetary basis and the GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. All budget amendments require Board approval. Such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end as dictated by law.

Each budget is prepared and controlled by the budget coordinator at the revenue and expenditure function/object level. All budget appropriations lapse at year-end.

Inventories

On district-wide financial statements inventories are stated at cost and are expensed when used.

On fund financial statements inventories are stated at cost. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased.

The food service fund uses the specific identification method and the general fund uses the first-in, first-out method.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities and long-term obligations are reported in the district-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Fund Balance Reserves

The Board reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for site-based carryover.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Board or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the Board, those revenues are primarily charges for meals provided by the various schools.

Use of Estimates

The process of preparing financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, designated fund balances, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Board considers demand deposits, money market funds, and other investments with an original maturity of ninety days or less, to be cash equivalents.

Investments

In accordance with GASB 31, investments are reported at fair value.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Encumbrances**

Encumbrances are not liabilities and therefore, are not recorded as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year-end and outstanding encumbrances at year-end are reappropriated in the next year. Accordingly, no differences exist between actual results and the applicable budgetary data presented in the accompanying combined financial statements.

NOTE 3 – CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE

For the fiscal year ended June 30, 2003, the Board implemented GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. For the fiscal year ended June 30, 2003 the Board has implemented GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.

GASB 34 creates new basic financial statements for reporting on the Board's financial activities. The financial statements now include district-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The district-wide financial statements split the Board's programs between business-type and governmental activities. The beginning net asset amount for governmental programs reflects the change in fund balance for governmental funds at June 30, 2002, caused by the conversion to the accrual basis of accounting.

The Board made several changes in accounting principles during the year. For governmental activities, they began recording the current portion of the accumulated sick leave liability. These changes bring the Board's funds into compliance with the fund classifications and requirements of GASB 34.

Restatement of Fund Balance – The restatement for the above changes and the transition from governmental fund balance to net assets of the governmental activities is presented below:

	<u>General</u>	<u>Special Revenue</u>	<u>Construction</u>	<u>Debt Service</u>	<u>Nonmajor</u>	<u>Total</u>
Fund Balance June 30, 2002	\$ 5,703,064	\$ -	\$ 16,755,518	\$ 7,344	\$ 415,619	\$ 22,881,545
Record Beginning Accumulated Sick Leave	<u>(128,554)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(128,554)</u>
Adjusted Fund Balance, June 30, 2002	<u>\$ 5,574,510</u>	<u>\$ -</u>	<u>\$ 16,755,518</u>	<u>\$ 7,344</u>	<u>\$ 415,619</u>	\$ 22,752,991
GASB 34 Adjustments:						
Capital Assets – Net of Depreciation						76,593,845
Long-Term Liabilities						(79,855,000)
Accumulated Sick Leave – Long-Term Portion						(1,156,987)
Accrued Interest Payable						<u>(870,800)</u>
Governmental Activities Net Assets, June 30, 2002						<u>\$ 17,464,049</u>

NOTE 3 – CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE
(Continued)

The Board had a fixed asset inventory taken to comply with GASB 34. This inventory revealed the existence of proprietary fixed assets that have not previously been recorded on the books. Changes as a result of the GASB 34 implementation are as follows:

	<u>Food Service</u>
Fund Balance, June 30, 2002	\$ 724,294
Additional Fixed Assts	<u>495,376</u>
Adjusted Fund Balance, June 30, 2002	\$ <u><u>1,219,670</u></u>

NOTE 4 – CASH AND CASH EQUIVALENTS

The carrying amount of the Board's deposits with financial institutions was \$9,386,617 and the bank balance was \$12,199,401. Of that amount, \$348,485 was insured by the FDIC. The remainder is collateralized with securities held by the financial institution and pledged to collateralize the Board's deposits. Cash and cash equivalents are funds temporarily invested in securities with a maturity of 90 days or less.

Cash and cash equivalents at June 30, 2003 consisted of the following:

	<u>Bank Balances</u>	<u>Book Balances</u>
Various Banks - Checking Accounts	\$ 12,111,202	\$ 9,298,418
Various Banks - Certificates of Deposits	<u>88,199</u>	<u>88,199</u>
	\$ <u><u>12,199,401</u></u>	\$ <u><u>9,386,617</u></u>

Breakdown per financial statements:

Governmental Funds	\$ 7,675,596
Proprietary Funds	783,448
Private Purpose Trust Funds	43,941
Agency Funds	<u>883,632</u>
	\$ <u><u>9,386,617</u></u>

NOTE 5 – INVESTMENTS

Investments made by the Board are summarized below. The investments that are represented by specific identifiable investment securities are classified as a credit risk by the three categories discussed below:

Category 1 - Insured or registered, or securities held by the Board or its agent in the Board's name.

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Board's name.

Category 3 - Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent, but not in the Board's name.

	Category			Carrying	Market
	1	2	3	Amount	Value
U. S. Government Securities	<u>\$ 4,157,398</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,157,398</u>	<u>\$4,157,398</u>

Funds that are temporarily in excess of operating needs shall be invested by the treasurer at the direction of the Superintendent or designee. Such funds shall be invested in one or more of the following:

1. Obligations of the United States and of its agencies and instrumentalities, including obligations subject to repurchase agreements, provided that delivery of these obligations subject to repurchase agreements is taken either directly or through an authorized custodian.
2. Obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States or a United States government agency.
3. Obligations of any corporation of the United States government.
4. Certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation or similar entity or which are collateralized, to the extent uninsured, by any obligations permitted by KRS 41.240(4).
5. Bonds or certificates of indebtedness of this state and of its agencies and instrumentalities.
6. Kentucky School District Liquid Asset Fund, Plus (KSDLAF+).

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2003 was as follows:

<u>Governmental Activities</u>	<u>Balance July 1, 2002</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2003</u>
Capital Assets Not Being Depreciated				
Land	\$ 2,107,604	\$ -	\$ -	\$ 2,107,604
Construction in Progress	<u>8,666,087</u>	<u>12,560,611</u>	<u>4,757,490</u>	<u>16,469,208</u>
Total Capital Assets Not Being Depreciated	<u>10,773,691</u>	<u>12,560,611</u>	<u>4,757,490</u>	<u>18,576,812</u>
Depreciable Capital Assets				
Land Improvements	2,587,785	211,355	-	2,799,140
Buildings and Building Improvements	81,256,517	4,739,291	-	85,995,808
Technology Equipment	12,164,902	579,959	-	12,744,861
Vehicles	8,020,728	-	-	8,020,728
General Equipment	<u>1,358,884</u>	<u>-</u>	<u>-</u>	<u>1,358,884</u>
Total Depreciable Capital Assets	<u>105,388,816</u>	<u>5,530,605</u>	<u>-</u>	<u>110,919,421</u>
Total Capital Assets at Historical Cost	<u>116,162,507</u>	<u>18,091,216</u>	<u>4,757,490</u>	<u>129,496,233</u>
Less Accumulated Depreciation				
Land Improvements	1,360,605	113,628	-	1,474,233
Buildings and Building Improvements	22,012,436	1,697,263	-	23,709,699
Technology Equipment	9,934,032	1,078,905	-	11,012,937
Vehicles	5,379,312	451,343	-	5,830,655
General Equipment	<u>882,277</u>	<u>96,901</u>	<u>-</u>	<u>979,178</u>
Total Accumulated Depreciation	<u>39,568,662</u>	<u>3,438,040</u>	<u>-</u>	<u>43,006,702</u>
Depreciable Capital Assets, Net	<u>65,820,154</u>	<u>2,092,565</u>	<u>-</u>	<u>67,912,719</u>
Governmental Activities Capital Assets - Net	<u>\$ 76,593,845</u>	<u>\$ 14,653,176</u>	<u>\$ 4,757,490</u>	<u>\$ 86,489,531</u>
<u>Business-Type Activities</u>				
Depreciable Capital Assets				
Technology Equipment	\$ 168,260	\$ -	\$ -	\$ 168,260
General Equipment	<u>2,347,701</u>	<u>-</u>	<u>-</u>	<u>2,347,701</u>
Totals at Historical Cost	<u>2,515,961</u>	<u>-</u>	<u>-</u>	<u>2,515,961</u>
Less Accumulated Depreciation				
Technology Equipment	156,695	6,494	-	163,189
General Equipment	<u>1,863,890</u>	<u>85,545</u>	<u>-</u>	<u>1,949,435</u>
Total Accumulated Depreciation	<u>2,020,585</u>	<u>92,039</u>	<u>-</u>	<u>2,112,624</u>
Business - Type Activities Capital Assets - Net	<u>\$ 495,376</u>	<u>\$ (92,039)</u>	<u>\$ -</u>	<u>\$ 403,337</u>

Depreciation expense was not allocated to governmental functions. It appears on the statement of activities as "unallocated".

The Board closed two of its schools after the 2002-03 school year. One of the buildings is held for sale at June 30, 2003. No impairment loss has been recognized since the fair market value exceeds the current net carrying value of the land and building of \$111,910. The second building is being held by the Board for anticipated future use as an office and/or warehouse. No impairment loss has been recognized since the estimated deflated depreciated replacement cost exceeds the current net carrying value of the land and building of \$550,000.

NOTE 7 – INTERFUND RECEIVABLES AND PAYABLES

There were no interfund balances at June 30, 2003.

NOTE 8 – BONDED DEBT AND LEASE OBLIGATIONS

The amount shown in the accompanying financial statements as lease obligations represent the Board's future obligations to make lease payments relating to the bonds issued by the Fiscal Court of Kenton County and the Kenton County School District Finance Corporation aggregating \$76,775,000.

The following is a summary of the Board's long-term debt transactions for the year ended June 30, 2003.

	Debt Outstanding <u>July 1, 2002</u>	Additions of <u>New Debt</u>	Repayments & Defeasance	Debt Outstanding <u>June 30, 2003</u>
Governmental Activities				
General Obligation				
Bonds	<u>\$79,855,000</u>	<u>\$15,880,000</u>	<u>\$18,960,000</u>	<u>\$76,775,000</u>

The repayments and defeasance of general obligation bonds includes \$18,779,074 repaid and defeased by the Board, and \$180,926 repaid by the Kentucky School Facility Construction Commission. The payments on bonds are made by the debt service fund.

Bonds

The Board, through the General Fund (including utility taxes), Building (FSPK) Fund, and the SEEK Capital Outlay Fund is obligated to make lease payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Fiscal Court to construct school facilities. The Board has an option to purchase the property under lease at any time by retiring the bonds then outstanding. The proceeds from certain refunding issues have been placed in escrow accounts to be used to service the related debt.

The Board has entered into "participation agreements" with the Kentucky School Facility Construction Commission. The Commission was created by the Kentucky Legislature for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amount to be paid by the Board and the Commission for each year until maturity of all bond issues. The liability for the total bond amount remains with the Board and, as such, the total principal outstanding has been recorded in the financial statements.

The original amount of outstanding issues, the issue dates, interest rates and outstanding balances at June 30, 2003 are summarized below:

<u>Issue</u>	<u>Original Amount</u>	<u>Board's Portion</u>	<u>Interest Rates</u>	<u>Outstanding Balance June 30, 2003</u>
February 1, 1994	\$ 8,075,000	\$ 8,075,000	4.625-4.750%	\$ 6,795,000
March 1, 1997	21,245,000	21,245,000	5.050-5.375	20,540,000
February 1, 1998	8,700,000	8,700,000	4.000-4.500	6,025,000
December 1, 1999	5,440,000	-	5.000-5.500	4,930,000
August 1, 2000	6,495,000	6,495,000	5.209	6,445,000
April 1, 2002	18,700,000	18,673,278	4.375-5.125	18,695,000
February 1, 2003	15,880,000	15,880,000	2.000-3.625	<u>13,345,000</u>
				<u>\$ 76,775,000</u>

NOTE 8 – BONDED DEBT AND LEASE OBLIGATIONS (Continued)

The bonds may be called prior to maturity at dates and redemption premiums specified in each issue. Assuming no issues are called prior to maturity, the minimum obligations of the Board, including amounts to be paid by the Commission at June 30, 2003 for debt service, (principal and interest) are as follows:

Fiscal Year Ended June 30,	Board's Portion		KSFCC Portion		Total Principal
	Principal	Interest	Principal	Interest	
2003-04	\$ 3,664,114	\$ 3,267,086	\$ 190,886	\$ 256,314	\$ 3,855,000
2004-05	3,769,075	3,148,116	200,925	246,036	3,970,000
2005-06	3,919,035	3,001,352	210,965	235,234	4,130,000
2006-07	4,073,993	2,848,506	221,007	223,906	4,295,000
2007-08	4,238,949	2,690,165	236,051	211,917	4,475,000
2008-09	4,423,903	2,517,731	246,097	199,271	4,670,000
2009-10	4,513,855	2,310,414	261,145	185,967	4,775,000
2010-11	4,518,804	2,131,686	276,196	171,873	4,795,000
2011-12	4,688,752	1,927,895	286,248	157,121	4,975,000
2012-13	3,773,696	1,726,654	301,304	141,708	4,075,000
2013-14	3,988,636	1,535,929	321,364	125,294	4,310,000
2014-15	4,188,572	1,331,834	336,428	107,872	4,525,000
2015-16	4,408,504	1,116,825	356,496	89,520	4,765,000
2016-17	4,638,429	886,112	376,571	70,098	5,015,000
2017-18	2,513,351	641,173	396,649	49,616	2,910,000
2018-19	2,643,268	512,936	416,732	28,068	3,060,000
2019-20	2,768,182	378,372	316,818	8,637	3,085,000
2020-21	2,903,091	237,233	1,909	198	2,905,000
2021-22	<u>2,182,995</u>	<u>111,878</u>	<u>2,005</u>	<u>102</u>	<u>2,185,000</u>
Totals	<u>\$71,819,204</u>	<u>\$32,321,897</u>	<u>\$4,955,796</u>	<u>\$2,508,752</u>	<u>\$76,775,000</u>

On February 1, 2003, the Board issued revenue refunding bonds of \$15,880,000, with interest rates varying from 2.00% to 3.625% to advance refund the 1993 school building revenue bonds with interest rates ranging from 5.00% to 5.40%. The new issue will redeem the outstanding 1993 bonds maturing after July 1, 2003 in the principal amount of \$15,230,000 on July 1, 2003 at the redemption price of 102%.

NOTE 9 – COMPENSATED ABSENCES

Changes in the Board's compensated absences during fiscal year 2003 were as follows:

	Balance June 30, 2002	Additions	Reductions	Balance June 30, 2003	Amounts Expected to be Paid Within One Year
Governmental Activities					
Accumulated					
Sick Leave	<u>\$ 1,285,541</u>	<u>\$ 956,983</u>	<u>\$ 232,600</u>	<u>\$ 2,009,924</u>	<u>\$ 200,992</u>

The accumulated sick leave liability will be liquidated by several governmental funds.

NOTE 10 – RETIREMENT PLANS

The Board's total payroll for the year was \$52,396,815. The payroll for employees covered under the following plans totaled \$51,340,507.

Kentucky Teachers' Retirement System

Certified employees participate in the Kentucky Teachers' Retirement System (KTRS), which is a cost sharing, multiple-employer retirement system created by and operating under Kentucky law.

The Kentucky Teachers' Retirement System covers all regular certified full-time employees of each school board. The plan provides for retirement, disability and death benefits. KTRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained in writing from the Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, Kentucky 40601-3800.

Participating employees contribute 9.855% of creditable compensation. Matching contributions are made by the state. These on behalf payments are reflected in the Board's financial records and amounted to \$4,901,271 for 2003. The matching contributions are paid by the federal program for any salaries paid by that program. Such contribution rates are determined by the Board of Trustees of Kentucky Retirement Systems. The Board contributed 12.305% of the employee's compensation paid by federal programs for the fiscal year ended June 30, 2003.

The Board's required contributions for pension obligations to KTRS for the fiscal years ended June 30, 2003, 2002 and 2001 were \$4,023,457 (composed of \$194,786 from the Board and \$3,828,671 for the employees), \$3,743,104 and \$3,428,939, respectively; 100 percent has been contributed for fiscal years 2003, 2002 and 2001.

County Employees Retirement System

Employees who work an average of 100 hours per month participate in the County Employees Retirement System of Kentucky (CERS) which is a cost sharing, multiple-employer public employees retirement system created by and operating under Kentucky Law.

The County Employees Retirement System covers substantially all regular non-certified full-time employees of each county and school board, and any additional local agencies electing to participate. The plan provides for retirement, disability and death benefits. CERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained in writing from the County Employee Retirement System, 1260 Louisville Road, Perimeter Park West, Frankfort, Kentucky, 40601.

Participating employees contribute 5.0% of the creditable compensation. Employer contribution rates are intended to fund the normal cost on a current basis plus one percent (1%) of unfunded past service costs per annum plus interest at the actuarial assumed rate. Such contribution rates are determined by the Board of Trustees of Kentucky Retirement Systems each biennium. The Board contributed 6.34% of the employee's compensation during the fiscal year ended June 30, 2003.

The Board's required contributions for pension obligations to CERS for the fiscal years ended June 30, 2003, 2002 and 2001 were \$1,413,309 (composed of \$789,311 from the Board and \$623,998 from the employees), \$1,413,348 and \$1,336,009, respectively; 100 percent has been contributed for fiscal years 2003, 2002, and 2001.

NOTE 11 – CONTINGENCIES

The Board receives funding from federal, state and local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if the grantor's review indicates that the funds have not been used for the intended purpose, the grantors may request a refund of monies advanced or refuse to reimburse the Board for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the Board's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

The Board is a defendant in a lawsuit filed for failure to provide appropriate extended-year education for a special needs child. A judgment has been entered against the Board for \$220,000 and there is an additional pending claim of \$100,000 for payment of attorney fees. The Board has appealed this judgment and intends to vigorously defend its position.

NOTE 12 – INSURANCE AND RELATED ACTIVITIES

The Board is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas are covered through the purchase of commercial insurance. The Board has purchased certain policies that are retrospectively rated which includes worker's compensation insurance.

NOTE 13 – RISK MANAGEMENT

The Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disaster. To obtain insurance for workers' compensation, errors and omission, and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. These public entity risk pools operate as common risk management and insurance programs for all school districts and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The district pays an annual premium to each fund for coverage. Contributions to the Worker's Compensation Fund are based on premium rates established by each fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four months after expiration of the self-insurance term. The Liability Insurance Fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety-day notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the member on a pro rata basis.

The Board purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the Board continues to carry commercial insurance for all other risks of loss, including the coverage listed in the supplemental schedule as listed in the table of contents. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 14 – TRANSFER OF FUNDS

The following transfers were made during the year:

<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Various	Debt Service Fund	Debt Service Payments	\$22,534,109
General	Special Revenue	Matching – Technology	308,263
Building	Construction	Construction Services	494,023

NOTE 15 – ON-BEHALF PAYMENTS

As amounts are paid by various state agencies on-behalf of the Board, the amounts are recognized as revenues and expenditures by the Board. On the Statement of Revenues, Expenditures and Changes in Fund Balance, the on-behalf payments are included with state revenue and are included in the functional expense classifications. On the Statement of Activities, the on-behalf payments are included in the functional expense classifications and are included with program operating grants and contributions for the respective functions. A summary of on-behalf payments during 2003 is as follows:

Payments Made by the State for
Fringe Benefits of Board Employees – Included
in the Following Functional Expense Classifications:

Instruction	\$ 5,625,482
Supporting Services	
Student	433,726
Instructional Staff	265,415
District Administration	19,421
School Administration	433,726
Business	32,368
Central Office	58,262
Plant Operation and Maintenance	634,405
Student Transportation	1,081,077
Community Service Operations	84,156
Food Service Operations	<u>595,564</u>
 Total	 \$ <u>9,263,602</u>

Payments Made by the State for
Vocational Education at Board Schools – Included
in Instruction Expenditures

\$ 247,339

Payments Made by the KSFCC for its
Participation in the Board's Bonds – Included
in Debt Service Expenditures

\$ 466,993

SUPPLEMENTAL INFORMATION

**KENTON COUNTY BOARD OF EDUCATION
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2003**

	SEEK Capital Outlay Fund	Building (FSPK) Fund	Total Nonmajor Governmental Funds
	<u> </u>	<u> </u>	<u> </u>
Assets			
Cash and Cash Equivalents	\$ -	\$ -	\$ -
Accounts Receivable			
Taxes - Current	-	-	-
Taxes - Delinquent	-	-	-
Accounts	-	-	-
Intergovernmental - State	-	-	-
Intergovernmental - Indirect Federal	-	-	-
Interest	-	-	-
Investments	-	-	-
	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
 Liabilities and Equity and Fund Balances			
Liabilities			
Accounts Payable	\$ -	\$ -	\$ -
Accrued Payroll and Related Expenses	-	-	-
Current Portion of Accumulated Sick Leave	-	-	-
Deferred Revenue	-	-	-
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>
 Fund Balances			
Reserved for			
Site Based Carryover	-	-	-
Unreserved			
Undesignated, Reported in			
General Fund	-	-	-
Special Revenue Funds	-	-	-
Capital Projects Funds	-	-	-
Debt Service Funds	-	-	-
	<u> </u>	<u> </u>	<u> </u>
Total Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>
 Total Liabilities and Fund Balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**KENTON COUNTY BOARD OF EDUCATION
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2003**

	SEEK Capital Outlay Fund	Building (FSPK) Fund	Total Nonmajor Governmental Funds
Revenues			
From Local Sources			
Taxes			
Property	\$ -	\$ 5,736,156	\$ 5,736,156
Motor Vehicle	-	-	-
Utilities	-	-	-
Other	-	23,910	23,910
Tuition and Fees	-	-	-
Transportation Fees	-	-	-
Earnings on Investments	-	-	-
Student Activities	-	-	-
Community Service Activities	-	-	-
Other Local Revenue	-	-	-
Intergovernmental - Intermediate	-	-	-
Intergovernmental - State	1,130,330	200,119	1,330,449
Intergovernmental - Indirect Federal	-	-	-
Total Revenues	1,130,330	5,960,185	7,090,515
Expenditures			
Current			
Instruction	-	-	-
Support Services			
Student	-	-	-
Instructional Staff	-	-	-
District Administration	-	-	-
School Administration	-	-	-
Business	-	-	-
Central Office	-	-	-
Plant Operation and Maintenance	-	-	-
Student Transportation	-	-	-
Community Service Operations	-	-	-
Facilities Acquisition and Construction			
Site Improvement	-	103,572	103,572
Educational Specifications	-	-	-
Student Activities	-	-	-
Debt Service	-	-	-
Total Expenditures	-	103,572	103,572
Excess of Revenues Over Expenditures	1,130,330	5,856,613	6,986,943
Other Financing Sources (Uses)			
Miscellaneous	-	-	-
Proceeds from Sale of Fixed Assets	-	-	-
Bond Fees Paid to Fiscal Agent	-	-	-
Bond Proceeds	-	-	-
Operating Transfers In	-	-	-
Operating Transfers Out	-	(494,023)	(494,023)
Transfers In/(Out) for Debt Service	(1,130,330)	(5,778,209)	(6,908,539)
Total Other Financing Uses	(1,130,330)	(6,272,232)	(7,402,562)
Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	-	(415,619)	(415,619)
Fund Balance July 1, 2002, as Originally Stated	-	415,619	415,619
Prior Period Adjustment	-	-	-
Fund Balance July 1, 2002, as Restated	-	415,619	415,619
Fund Balance June 30, 2003	\$ -	\$ -	\$ -

KENTON COUNTY BOARD OF EDUCATION
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
SPECIAL REVENUE FUNDS
Year Ended June 30, 2003

	Federal					Sub-Total
	Title I	IDEA B	IDEA Preschool	Title V	Other	Federal
Revenues						
Tuition and Fees	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental - State	-	-	-	-	-	-
Intergovernmental - Indirect Federal	991,155	1,607,198	146,806	108,174	478,428	3,331,761
Total Revenues	<u>991,155</u>	<u>1,607,198</u>	<u>146,806</u>	<u>108,174</u>	<u>478,428</u>	<u>3,331,761</u>
Expenditures						
Current						
Instruction	798,732	1,103,440	91,451	46,543	391,142	2,431,308
Support Services						
Student	-	276,115	-	55,662	85,655	417,432
Instructional Staff	162,269	199,701	55,355	5,969	1,631	424,925
Business	27,966	27,942	-	-	-	55,908
Central Office	-	-	-	-	-	-
Plant Operation and Maintenance	-	-	-	-	-	-
Student Transportation	-	-	-	-	-	-
Community Services Operations	2,188	-	-	-	-	2,188
Facilities Acquisition and Construction						
Educational Specifications	-	-	-	-	-	-
Total Expenditures	<u>991,155</u>	<u>1,607,198</u>	<u>146,806</u>	<u>108,174</u>	<u>478,428</u>	<u>3,331,761</u>
Deficit of Revenues Over Expenditure	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other Financing Sources						
Miscellaneous	-	-	-	-	-	-
Operating Transfers In	-	-	-	-	-	-
Total Other Financing Sources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of Revenues and Other Financing Sources Over Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance July 1, 2002	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance June 30, 2003	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

KENTON COUNTY BOARD OF EDUCATION
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
SPECIAL REVENUE FUNDS (Continued)
Year Ended June 30, 2003

	State												Special
	Sub-Total	Extended	State	Family Youth	Early	KERA	Professional	Education	Safe	Textbooks	School	Other	Revenue
	Federal	School	Agency	Resource	Reading	Preschool	Development	Technology	Schools		Rewards		Funds
		Services	Children	Center									
Revenues													
Tuition and Fees	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	5,338	\$ 5,338
Intergovernmental - State	-	314,355	205,034	407,962	86,029	1,220,966	176,939	251,718	247,766	124,067	305,638	796,959	4,137,433
Intergovernmental - Indirect Federal	3,331,761	-	-	-	-	-	-	-	-	-	-	-	3,331,761
Total Revenues	3,331,761	314,355	205,034	407,962	86,029	1,220,966	176,939	251,718	247,766	124,067	305,638	802,297	7,474,532
Expenditures													
Current													
Instruction	2,431,308	286,048	205,034	-	86,029	924,020	-	-	247,766	124,067	305,638	611,309	5,221,219
Support Services													
Student	417,432	-	-	-	-	43,966	-	-	-	-	-	8,093	469,491
Instructional Staff	424,925	10,155	-	-	-	-	176,939	-	-	-	-	6,474	618,493
Business	55,908	-	-	-	-	-	-	-	-	-	-	-	55,908
Central Office	-	-	-	-	-	-	-	85,714	-	-	-	-	85,714
Plant Operation and Maintenance	-	-	-	-	-	-	-	-	-	-	-	-	-
Student Transportation	-	18,152	-	-	-	252,980	-	-	-	-	-	90,629	361,761
Community Services Operations	2,188	-	-	407,962	-	-	-	-	-	-	-	101,342	511,492
Facilities Acquisition and Construction													
Educational Specifications	-	-	-	-	-	-	-	474,267	-	-	-	-	474,267
Total Expenditures	3,331,761	314,355	205,034	407,962	86,029	1,220,966	176,939	559,981	247,766	124,067	305,638	817,847	7,798,345
Deficit of Revenues Over Expenditure	-	-	-	-	-	-	-	(308,263)	-	-	-	(15,550)	(323,813)
Other Financing Sources													
Miscellaneous	-	-	-	-	-	-	-	-	-	-	-	15,550	15,550
Operating Transfers In	-	-	-	-	-	-	-	308,263	-	-	-	-	308,263
Total Other Financing Sources	-	-	-	-	-	-	-	308,263	-	-	-	15,550	323,813
Excess of Revenues and Other Financing Sources Over Expenditures	-	-	-	-	-	-	-	-	-	-	-	-	-
Fund Balance July 1, 2002	-	-	-	-	-	-	-	-	-	-	-	-	-
Fund Balance June 30, 2003	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

KENTON COUNTY BOARD OF EDUCATION
COMBINING STATEMENT OF FIDUCIARY NET ASSETS
June 30, 2003

	Private Purpose Trust Funds		Sub-Total Private Purpose Trust Funds	Agency Fund School Activity Funds	Total Fiduciary Net Assets
	Auton Trust Fund	Williams Memorial Fund			
Assets					
Cash and Cash Equivalents	\$ 35,101	\$ 8,840	\$ 43,941	\$ 883,632	\$ 927,573
Accounts Receivable					
Accounts	-	-	-	25,172	25,172
Total Assets	\$ 35,101	\$ 8,840	\$ 43,941	\$ 908,804	\$ 952,745
Liabilities					
Due to Student Groups	\$ -	\$ -	\$ -	\$ 900,412	\$ 900,412
Accounts Payable	-	-	-	8,392	8,392
Total Liabilities	\$ -	\$ -	\$ -	\$ 908,804	\$ 908,804
Net Assets					
Unreserved	\$ 35,101	\$ 8,840	\$ 43,941	\$ -	\$ 43,941

KENTON COUNTY BOARD OF EDUCATION
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
Year Ended June 30, 2003

	Private Purpose Trust Funds		Total Private Purpose Trust Funds
	Auton Trust Fund	Williams Memorial Fund	
Additions			
From Local Sources			
Earnings on Investments	\$ 1,046	\$ 266	\$ 1,312
Deductions			
Current			
Instruction	-	500	500
Change in Net Assets	1,046	(234)	812
Net Assets July 1, 2002	34,055	\$ 9,074	\$ 43,129
Net Assets June 30, 2003	\$ 35,101	\$ 8,840	\$ 43,941

**KENTON COUNTY BOARD OF EDUCATION
COMBINING STATEMENT OF FIDUCIARY NET ASSETS
SCHOOL ACTIVITY FUNDS
June 30, 2003**

	<u>Dixie Heights High School</u>	<u>Scott High School</u>	<u>Simon Kenton High School</u>	<u>Beechgrove Elementary</u>	<u>J.A. Caywood Elementary</u>	<u>Fort Wright Elementary</u>	<u>Kenton Elementary</u>	<u>Piner Elementary</u>	<u>R.C. Hinsdale Elementary</u>	<u>River Ridge Elementary</u>	<u>Ryland Heights Elementary</u>
Assets											
Cash and Cash Equivalents	\$ 81,859	\$ 141,199	\$ 176,587	\$ 14,491	\$ 16,200	\$ 13,980	\$ 23,254	\$ 13,179	\$ 18,048	\$ 28,817	\$ 21,042
Accounts Receivable - Accounts	-	-	14,870	-	-	-	1,478	-	4,733	3,097	-
Total Assets	<u>\$ 81,859</u>	<u>\$ 141,199</u>	<u>\$ 191,457</u>	<u>\$ 14,491</u>	<u>\$ 16,200</u>	<u>\$ 13,980</u>	<u>\$ 24,732</u>	<u>\$ 13,179</u>	<u>\$ 22,781</u>	<u>\$ 31,914</u>	<u>\$ 21,042</u>
Liabilities											
Due to Student Groups	\$ 81,859	\$ 141,119	\$ 190,232	\$ 14,491	\$ 16,200	\$ 13,980	\$ 24,272	\$ 13,179	\$ 20,136	\$ 31,019	\$ 21,042
Accounts Payable	-	80	1,225	-	-	-	460	-	2,645	895	-
Total Liabilities	<u>\$ 81,859</u>	<u>\$ 141,199</u>	<u>\$ 191,457</u>	<u>\$ 14,491</u>	<u>\$ 16,200</u>	<u>\$ 13,980</u>	<u>\$ 24,732</u>	<u>\$ 13,179</u>	<u>\$ 22,781</u>	<u>\$ 31,914</u>	<u>\$ 21,042</u>

	<u>Summit View Elementary</u>	<u>Summit View Middle School</u>	<u>Taylor Mill Elementary</u>	<u>Visalia Elementary</u>	<u>White's Tower Elementary</u>	<u>Turkey Foot Middle School</u>	<u>Twenhofel Middle School</u>	<u>Woodland Middle School</u>	<u>Northern Kentucky Development Center</u>	<u>Park Hills Center</u>	<u>Totals</u>
Assets											
Cash and Cash Equivalents	\$ 24,990	\$ 28,737	\$ 97,686	\$ 6,996	\$ 47,871	\$ 32,513	\$ 61,293	\$ 29,145	\$ 5,070	\$ 675	\$ 883,632
Accounts Receivable - Accounts	-	-	-	330	-	-	-	-	664	-	25,172
Total Assets	<u>\$ 24,990</u>	<u>\$ 28,737</u>	<u>\$ 97,686</u>	<u>\$ 7,326</u>	<u>\$ 47,871</u>	<u>\$ 32,513</u>	<u>\$ 61,293</u>	<u>\$ 29,145</u>	<u>\$ 5,734</u>	<u>\$ 675</u>	<u>\$ 908,804</u>
Liabilities											
Due to Student Groups	\$ 24,990	\$ 28,737	\$ 97,686	\$ 7,326	\$ 47,871	\$ 31,868	\$ 61,293	\$ 26,703	\$ 5,734	\$ 675	\$ 900,412
Accounts Payable	-	-	-	-	-	645	-	2,442	-	-	8,392
Total Liabilities	<u>\$ 24,990</u>	<u>\$ 28,737</u>	<u>\$ 97,686</u>	<u>\$ 7,326</u>	<u>\$ 47,871</u>	<u>\$ 32,513</u>	<u>\$ 61,293</u>	<u>\$ 29,145</u>	<u>\$ 5,734</u>	<u>\$ 675</u>	<u>\$ 908,804</u>

**KENTON COUNTY BOARD OF EDUCATION
DIXIE HEIGHTS HIGH SCHOOL ACTIVITY FUNDS
STATEMENT OF RECEIPTS AND DISBURSEMENTS**

Fund Accounts	Cash Balances June 30, 2002	Receipts	Disbursements	Cash Balances June 30, 2003	Accounts Receivable	(Accounts Payable)	Due to Student Groups June 30, 2003
Academic Competition	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Advanced Placement	-	17,381	17,223	158	-	-	158
Art	1,457	1,450	1,968	939	-	-	939
Athletic - Golf	-	1,518	1,518	-	-	-	-
Athletic - Tennis	-	4,517	4,517	-	-	-	-
Athletic - Track	220	1,559	1,779	-	-	-	-
Athletic - Football	-	36,686	36,374	312	-	-	312
Athletic - Girls Basketball	428	10,167	9,757	838	-	-	838
Athletic - Soccer	-	8,107	8,107	-	-	-	-
Athletic - Miscellaneous	115	25,335	25,450	-	-	-	-
Athletic - Softball	200	7,031	6,832	399	-	-	399
Athletic - Baseball	-	3,509	3,509	-	-	-	-
Athletic - Swimming	-	3,651	3,651	-	-	-	-
Athletic - Volleyball	-	1,382	1,382	-	-	-	-
Business	491	2,972	3,463	-	-	-	-
Cheerleaders	-	9,907	9,907	-	-	-	-
Chorus	1,269	8,089	9,003	355	-	-	355
Class of 2004	355	13,525	10,134	3,746	-	-	3,746
Class of 2005	1,048	4,803	3,695	2,156	-	-	2,156
Club - FBLA	61	-	61	-	-	-	-
Club - National Honor	241	8,183	7,511	913	-	-	913
D.H.I.T.	-	1,082	700	382	-	-	382
Drama	275	778	452	601	-	-	601
English	-	430	430	-	-	-	-
Faculty	-	3,671	1,570	2,101	-	-	2,101
Flower Fund	26	603	366	263	-	-	263
Foreign Language	-	223	24	199	-	-	199
Band	139	100	52	187	-	-	187
Class of 2006	-	50	50	-	-	-	-
Little Colonels	8,749	46,741	46,741	8,749	-	-	8,749
Class of 2003	1,351	12,118	11,328	2,141	-	-	2,141
France 2000	346	-	-	346	-	-	346
General	2,460	66,575	68,985	50	-	-	50
P.E.	332	1,992	1,965	359	-	-	359
Home Economics	-	2,471	1,823	648	-	-	648
International Thespian Society	-	2,031	1,998	33	-	-	33

(Continued)

**KENTON COUNTY BOARD OF EDUCATION
DIXIE HEIGHTS HIGH SCHOOL ACTIVITY FUNDS
STATEMENT OF RECEIPTS AND DISBURSEMENTS**

Fund Accounts	Cash Balances June 30, 2002	Receipts	Disbursements	Cash Balances June 30, 2003	Accounts Receivable	(Accounts Payable)	Due to Student Groups June 30, 2003
Library	\$ 522	\$ 731	\$ 928	\$ 325	\$ -	\$ -	\$ 325
Lift-A-Thon	-	1,781	1,781	-	-	-	-
Mathematics	489	349	838	-	-	-	-
Newspaper	12	1,139	1,151	-	-	-	-
SBDM	64	686	750	-	-	-	-
Senior Fest	217	4,825	5,042	-	-	-	-
Science	651	6,404	6,936	119	-	-	119
Summer School	-	500	-	500	-	-	500
Social Studies	97	662	759	-	-	-	-
Transportation	-	12,014	12,014	-	-	-	-
Special Ed	164	439	275	328	-	-	328
STARS	-	8,328	7,596	732	-	-	732
Student Activities	64	596	596	64	-	-	64
Student Council	5,897	10,600	8,825	7,672	-	-	7,672
Textbook	7,686	34,809	40,798	1,697	-	-	1,697
Humanities	140	1,269	1,409	-	-	-	-
Education Materials	-	7,698	6,209	1,489	-	-	1,489
Technology	-	9,753	2,120	7,633	-	-	7,633
Environmental Club	-	4,923	3,402	1,521	-	-	1,521
Health	-	3,154	2,980	174	-	-	174
Academics	-	517	295	222	-	-	222
Weight Room	-	14,690	8,240	6,450	-	-	6,450
Athletics - Boys Basketball	-	37,836	20,231	17,605	-	-	17,605
Part. Fees	-	11,197	9,913	1,284	-	-	1,284
Athletics - Cross Country	-	1,934	1,934	-	-	-	-
Colonel Card	-	8,370	8,370	-	-	-	-
Athletics - Wrestling	-	5,760	5,760	-	-	-	-
F.E.A.	-	314	104	210	-	-	210
Open	-	1,000	-	1,000	-	-	1,000
Yearbook	6,067	5,357	4,465	6,959	-	-	6,959
Total	41,633	506,272	466,046	81,859	-	-	81,859
Less Inter-Fund Transfers	-	76,862	76,862	-	-	-	-
Total	\$ 41,633	\$ 429,410	\$ 389,184	\$ 81,859	\$ -	\$ -	\$ 81,859

**KENTON COUNTY BOARD OF EDUCATION
SCOTT HIGH SCHOOL ACTIVITY FUNDS
STATEMENT OF RECEIPTS AND DISBURSEMENTS**

Fund Accounts	Cash Balances June 30, 2002	Receipts	Disbursements	Cash Balances June 30, 2003	Accounts Receivable	(Accounts Payable)	Due to Student Groups June 30, 2003
Academic Team	\$ 2,783	\$ 100	\$ 1,419	\$ 1,464	\$ -	\$ -	\$ 1,464
After Prom	708	-	332	376	-	-	376
Alumni Association	28	-	28	-	-	-	-
AP Exams	-	22,490	11,859	10,631	-	-	10,631
Andrew Cahill Memorial	150	-	150	-	-	-	-
Annual	16,087	13,513	14,353	15,247	-	-	15,247
Art	904	2,425	2,524	805	-	-	805
Athletic Concession	914	405	637	682	-	-	682
Athletics	14,223	114,990	123,372	5,841	-	-	5,841
Bill Dean Memorial	680	-	680	-	-	-	-
Bookstore	270	1,344	1,538	76	-	-	76
Business Education	9,099	8,708	4,477	13,330	-	-	13,330
Career Development	1,961	-	1,961	-	-	-	-
Chamber Choir	-	110	110	-	-	-	-
Class of 2006	-	1,980	779	1,201	-	-	1,201
Class of 2004	2,864	24,519	16,440	10,943	-	-	10,943
Class of 2002	195	-	195	-	-	-	-
Class of 2003	10,233	11,075	21,308	-	-	-	-
Class of 2005	1,128	2,268	1,428	1,968	-	-	1,968
Class of '91	107	-	-	107	-	-	107
Health & Physical	25	1,035	127	933	-	-	933
Landscaping	432	-	255	177	-	-	177
Breast Cancer	-	194	194	-	-	-	-
FCCLA Region 7	-	1,276	594	682	-	-	682
Drama	2,515	2,443	1,597	3,361	-	-	3,361
English	251	14,332	14,046	537	-	-	537
Environmental Club	1,508	755	620	1,643	-	-	1,643
FBLA	618	3,580	4,084	114	-	-	114
FCCLA	875	13,272	13,321	826	-	-	826
Flower Fund	59	622	529	152	-	-	152
Foreign Language	5,468	764	5,577	655	-	-	655
French Club	914	8,159	7,576	1,497	-	-	1,497
French NHS	108	603	466	245	-	-	245
Freshman Retreat	477	1,465	1,942	-	-	-	-
General Fund	2,913	29,206	27,545	4,574	-	80	4,494
German	136	2,830	2,595	371	-	-	371
Gifted and Talented	-	45	45	-	-	-	-

(Continued)

**KENTON COUNTY BOARD OF EDUCATION
SCOTT HIGH SCHOOL ACTIVITY FUNDS
STATEMENT OF RECEIPTS AND DISBURSEMENTS**

Fund Accounts	Cash Balances June 30, 2002	Receipts	Disbursements	Cash Balances June 30, 2003	Accounts Receivable	(Accounts Payable)	Due to Student Groups June 30, 2003
Home Ec Dawkins	\$ 170	\$ 2,337	\$ 2,284	\$ 223	\$ -	\$ -	\$ 223
Home Ec Hinton	623	1,424	1,047	1,000	-	-	1,000
Journalism	-	-	-	-	-	-	-
Jr. Statesman / America	-	-	-	-	-	-	-
Library	769	346	305	810	-	-	810
Mous	-	1,164	480	684	-	-	684
Lockers	1,529	40	983	586	-	-	586
Manufacturing Intern	186	-	186	-	-	-	-
Math	156	-	156	-	-	-	-
Music	31	1,005	1,035	1	-	-	1
NARE Grant	298	-	298	-	-	-	-
NHS	1,885	11,432	10,434	2,883	-	-	2,883
Pathway to Careers	698	674	1,372	-	-	-	-
Nortel	-	-	-	-	-	-	-
Paramount Kings Island	-	-	-	-	-	-	-
Pep Club	-	-	-	-	-	-	-
Professional Development	348	1,076	1,136	288	-	-	288
SADD	-	-	-	-	-	-	-
Science	4,064	26,712	29,801	975	-	-	975
Scott Coke	620	2,555	2,242	933	-	-	933
Site Based	1,394	500	1,374	520	-	-	520
Scott Faculty Fund	54	576	630	-	-	-	-
Scott HS Pool	1,316	-	365	951	-	-	951
Social Studies	139	136	-	275	-	-	275
Spanish Club	-	-	-	-	-	-	-
Spanish NHS	298	123	262	159	-	-	159
Spanish II Club	-	-	-	-	-	-	-
Special Topics	72	-	72	-	-	-	-
Stud Tech Leadership	212	16	176	52	-	-	52
Student Assist Team	413	-	20	393	-	-	393
Student Council	7,095	10,199	14,723	2,571	-	-	2,571
Teachers Coke	782	2,699	3,092	389	-	-	389
Technology	-	25,213	18,045	7,168	-	-	7,168
SHS Scholarship	8,000	8,000	8,000	8,000	-	-	8,000
Teen Leadership Club	351	250	-	601	-	-	601
Textbooks	31,500	55,779	56,077	31,202	-	-	31,202
Video Club	606	-	606	-	-	-	-

(Continued)

**KENTON COUNTY BOARD OF EDUCATION
SCOTT HIGH SCHOOL ACTIVITY FUNDS
STATEMENT OF RECEIPTS AND DISBURSEMENTS**

Fund Accounts	Cash Balances June 30, 2002	Receipts	Disbursements	Cash Balances June 30, 2003	Accounts Receivable	(Accounts Payable)	Due to Student Groups June 30, 2003
Physical Education	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Visual/Performing Arts	2,558	3,295	4,035	1,818	-	-	1,818
Advanced Topics	34	-	34	-	-	-	-
Beta Club	212	631	564	279	-	-	279
Curtain Fund	-	-	-	-	-	-	-
Modular Technology	-	-	-	-	-	-	-
Orientation	-	273	273	-	-	-	-
Right Track Program	53	-	53	-	-	-	-
Multi Media	870	624	1,494	-	-	-	-
Total	145,969	441,587	446,357	141,199	-	80	141,119
Less Inter-Fund Transfers	-	13,019	13,019	-	-	-	-
Total	\$ 145,969	\$ 428,568	\$ 433,338	\$ 141,199	\$ -	\$ 80	\$ 141,119

**KENTON COUNTY BOARD OF EDUCATION
SIMON KENTON HIGH SCHOOL ACTIVITY FUNDS
STATEMENT OF RECEIPTS AND DISBURSEMENTS**

Fund Accounts	Cash Balances June 30, 2002	Receipts	Disbursements	Cash Balances June 30, 2003	Accounts Receivable	(Accounts Payable)	Due to Student Groups June 30, 2003
Academic Team	\$ -	\$ 1,091	\$ 1,091	\$ -	\$ -	\$ -	\$ -
Airplane Grant	29	-	29	-	-	-	-
Art Department	549	1,846	2,095	300	-	-	300
Athletic	15,424	92,273	98,909	8,788	-	-	8,788
Aviation	68	29	-	97	-	-	97
Business Department	3,388	6,903	9,422	869	-	-	869
Chorus	675	10,500	11,050	125	-	-	125
Class of 2006	-	2,500	-	2,500	-	-	2,500
Class of 2004	1,543	7,163	2,488	6,218	-	-	6,218
Class of 2003	5,538	26,726	32,264	-	-	-	-
Class of 2005	597	3,476	1,573	2,500	-	-	2,500
Concessions	-	27,850	27,850	-	-	-	-
Drama	578	824	816	586	-	-	586
English	46	10,739	9,554	1,231	-	-	1,231
Environmental Club	826	-	826	-	-	-	-
FBLA	3,023	1,726	3,551	1,198	-	-	1,198
FCA	75	139	25	189	-	-	189
FFA	7,371	2,549	9,920	-	-	-	-
FHA	656	-	656	-	-	-	-
Fire Fund	20,000	-	-	20,000	-	-	20,000
Flower Fund	-	614	602	12	-	-	12
French Club	1,813	4,110	3,658	2,265	-	-	2,265
General	5,071	31,076	19,271	16,876	13,226	1,225	28,877
Geometry Club	575	337	520	392	-	-	392
Grants	15	-	15	-	-	-	-
Home Economics	495	936	1,431	-	-	-	-
Humanities	-	1,009	1,009	-	-	-	-
Library	1,032	2,607	3,093	546	-	-	546
Spanish Club	670	2,663	2,786	547	-	-	547
Media	855	1,040	671	1,224	-	-	1,224
Music	712	385	1,097	-	-	-	-
National Honor Society	273	2,348	1,336	1,285	-	-	1,285
Peer Mediation	1,616	1,060	2,176	500	-	-	500
Police Fund	6,000	4,260	10,260	-	-	-	-
Project Prom	-	7,114	7,114	-	-	-	-

(Continued)

**KENTON COUNTY BOARD OF EDUCATION
SIMON KENTON HIGH SCHOOL ACTIVITY FUNDS
STATEMENT OF RECEIPTS AND DISBURSEMENTS**

Fund Accounts	Cash Balances June 30, 2002	Receipts	Disbursements	Cash Balances June 30, 2003	Accounts Receivable	(Accounts Payable)	Due to Student Groups June 30, 2003
Summer School	\$ -	\$ 6,490	\$ 6,490	\$ -	\$ -	\$ -	\$ -
SBDM	86	723	609	200	-	-	200
Scholarship	13,379	10,000	8,500	14,879	-	-	14,879
Science	1,864	11,824	10,514	3,174	-	-	3,174
Student Council	-	2,026	2,026	-	-	-	-
Student Incentive	5,353	11,262	11,929	4,686	-	-	4,686
Vending	2,416	6,736	9,152	-	-	-	-
Teen Leadership Club	117	-	25	92	-	-	92
Technology Education	6,440	5,257	7,414	4,283	-	-	4,283
Textbook Rental	74,288	80,198	83,722	70,764	-	-	70,764
TSA	1,132	3,346	4,478	-	1,644	-	1,644
Yearbook 01-02	2,395	199	2,594	-	-	-	-
Yearbook 02-03	-	1,137	1,137	-	-	-	-
Student Leaders	12	-	12	-	-	-	-
BEST Partnership	-	11,049	6,572	4,477	-	-	4,477
Pioneer Press	-	511	511	-	-	-	-
Math	-	220	26	194	-	-	194
Technology Maintenance	-	14,543	10,185	4,358	-	-	4,358
Testing Fund	-	14,516	14,501	15	-	-	15
Academic Boosters	-	260	138	122	-	-	122
Presidential Awards	1,122	-	27	1,095	-	-	1,095
Total	188,117	436,190	447,720	176,587	14,870	1,225	190,232
Less Inter-Fund Transfers	-	52,131	52,131	-	-	-	-
Total	\$ 188,117	\$ 384,059	\$ 395,589	\$ 176,587	\$ 14,870	\$ 1,225	\$ 190,232

**KENTON COUNTY BOARD OF EDUCATION
BOARD MEMBERS AND ADMINISTRATIVE PERSONNEL
June 30, 2003**

<u>Name</u>	<u>Address</u>	<u>Term Expires</u>
Karen Collins	1518 Walton-Nicholson Road Walton, Kentucky	December 31, 2004
Mike Martin	208 College Park Crestview Hills, Kentucky	December 31, 2004
Carl Wicklund	8938 Juliameadow Independence, Kentucky	December 31, 2004
Tamara Miano	1309 Old State Road Park Hills, Kentucky	December 31, 2005
Janice Hacker	9 Crystal Lake Drive Covington, Kentucky	December 31, 2005

Administrative Personnel:

Dr. Susan Cook	-	Superintendent
Peter Lefaivre	-	Assistant Superintendent
Terri Cox-Cruey	-	Assistant Superintendent
Kelley Gamble	-	Treasurer
Phyllis Schry	-	Secretary

KENTON COUNTY BOARD OF EDUCATION
SCHEDULE OF INSURANCE
June 30, 2003

<u>Type of Coverage</u>	<u>Expiration Date</u>	<u>Coverage</u>
<u>Blanket Building & Contents - Insurance</u>		
All School Facilities and Contents (Includes Earthquake and Flood Endorsements, Boiler and Machinery)	July 1, 2003	Buildings \$144,263,109 and Personal Property
<u>Workmen's' Compensation</u>		
All School Employees	January 1, 2004	Statutory
<u>Collision, Comprehensive and Property Damage</u>		
School Buses - Other Vehicles		
Liability -		
Bodily Injury	July 1, 2003	\$1,000,000
Uninsured and Underinsured Motorists		\$100,000
<u>Comprehensive General Liability</u>		
School Board Members, Superintendent, Certified Employees, Classified Employees, Psychologists and Psychometrists	July 1, 2003	\$2,000,000 - General Aggregate Level \$1,000,000 Each Occurrence Limit
<u>Educators Legal Liability</u>		
School Board Members, Superintendent, Certified Employees, Classified Employees, Psychologists and Psychometrists	July 1, 2003	\$6,000,000 - General Aggregate Level \$6,000,000 Each Occurrence Limit
Umbrella Policy	July 1, 2003	\$5,000,000 Limit
<u>Treasurer's Bond</u>		
Kelley S. Gamble	July 1, 2003	\$600,000
<u>Employees' Blanket Bond</u>		
All Employees	July 1, 2003	\$50,000
<u>Depository Bond</u>		
US Bank	June 30, 2004	\$250,000
Fifth Third Bank	June 30, 2004	\$31,700,000

KENTON COUNTY BOARD OF EDUCATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2003

Federal Grants/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantors Number	Disbursement
U.S. Department of Agriculture			
Passed through State Department of Agriculture			
Food Distribution - Value of Commodities	10.550		\$ 228,966
Passed through State Department of Education			
School Breakfast Program	10.553	0575-03-05	117,920
National School Lunch Program	10.555	0575-03-02	<u>889,615</u>
Total U.S. Department of Agriculture			\$ <u>1,236,501</u>
U.S. Department of Education			
Passed through State Department of Education			
Title I	84.010	0531-02-01	\$ 48,014
Title I	84.010	0531-03-01	<u>943,141</u>
Program Total			<u>991,155</u>
IDEA - Part B	84.027	0581-02-02	237,066
IDEA - Part B	84.027	0581-03-02	<u>1,370,132</u>
Program Total			<u>1,607,198</u>
IDEA - Part B - Preschool	84.173	0587-03-02	146,806
Title V	84.298	0533-01-02	108,174
Title VI	84.298	0533-03-02	16,061
Title II - Eisenhower Math/Science	84.281	0530-02-03	34,843
Drug Free Schools	84.186	0590-01-02	2,464
Drug Free Schools	84.186	0590-02-02	40,418
Drug Free Schools	84.186	0590-03-02	<u>52,823</u>
Program Total			<u>95,705</u>

(Continued)

KENTON COUNTY BOARD OF EDUCATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2003

Federal Grants/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantors Number	Disbursement
Title VII - Class Size Reduction	84.340	0590-02-02	\$ 630
Vocational Educational - Title IC	84.048	5462-03-32	94,189
Neglected / Delinquent Program	84.013		16,384
Community Based Organization	84.174		37,653
Education Technology	84.318		16,593
Tech Literacy Challenge	84.318	0736-02-02	14,782
Jobs for KY Grads	17.255		24,000
English Language Acquisition	84.365		2,141
Refugee Children	93.576		4,269
Teacher Quality	84.367		104,389
Tech Prep Education	84.243		<u>16,789</u>
Total Department of Education			<u>3,331,761</u>
Total Expenditures of Federal Awards			<u><u>\$ 4,568,262</u></u>

**KENTON COUNTY BOARD OF EDUCATION
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Kenton County Board of Education and is presented on the basis of accounting described in Note 2 of the financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

NOTE 2 – FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair value of the commodities received and disbursed. At June 30, 2003, the Board had no commodities in inventory.



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

State Committee for School District Audits
Kenton County Board of Education
Erlanger, Kentucky

We have audited the financial statements of the Kenton County Board of Education as of and for the year ended June 30, 2003, and have issued our report thereon dated August 22, 2003. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the audit requirements included as an appendix to the state audit contract.

Compliance

As part of obtaining reasonable assurance about whether the Kenton County Board of Education's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

In addition, the results of our tests disclosed no instances of noncompliance of specific state statutes or regulations identified in Appendix II (9)(a)-(w) of the state audit contract that are required to be reported under Government Auditing Standards.

However, we noted certain immaterial instances of noncompliance that we have reported to management in a separate letter dated August 22, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Kenton County Board of Education's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

State Committee for School District Audits
Kenton County Board of Education

This report is intended solely for the information and use of management, the Kentucky Department of Education and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

VonLehman & Company Inc.

Fort Mitchell, Kentucky
August 22, 2003



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

State Committee for School District Audits
Kenton County Board of Education
Erlanger, Kentucky

Compliance

We have audited the compliance of the Kenton County Board of Education with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2003. Kenton County Board of Education's major federal programs are identified in the summary of auditor's result section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Board's management. Our responsibility is to express an opinion of the Board's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A- 133, "Audits of States, Local Governments, and Non-Profit Organizations;" and the audit requirements included as an appendix to the state audit contract. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Board's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Kenton County Board of Education's compliance with those requirements.

In our opinion, the Kenton County Board of Education complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.

Internal Control Over Compliance

The management of the Kenton County Board of Education is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Kenton County Board of Education's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

State Committee for School District Audits
Kenton County Board of Education

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, the Kentucky Department of Education and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

VonLehman & Company Inc.

Fort Mitchell, Kentucky
August 22, 2003

**KENTON COUNTY BOARD OF EDUCATION
SCHEDULE OF FINDINGS
Year Ended June 30, 2003**

SECTION 1 – SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS	
Type of Financial Statement Opinion	Unqualified
Were there any material control weakness conditions reported at the financial statements level (GAGAS)?	No
Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	None Reported
Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
FEDERAL AWARDS	
Were there any material internal control weakness conditions reported for major federal programs?	No
Were there any other reportable conditions identified, not considered to be material weaknesses reported for major programs?	None Reported
Type of Major Programs Compliance Opinion	Unqualified
Are there any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510?	No
Major Programs (list):	IDEA Part B [CFDA 84.027 and 84.173] National School Lunch Program [CFDA 10.550, 10.558 and 10.555] Title I [CFDA 84.010]
Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: > all others
Low Risk Auditee?	No

SECTION II – FINANCIAL STATEMENT FINDINGS

No matters to be reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters to be reported.

**KENTON COUNTY BOARD OF EDUCATION
SCHEDULE OF STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2003**

PRIOR YEAR – FINANCIAL STATEMENT FINDINGS

No matters were reported.

PRIOR YEAR – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.



Kenton County Board of Education
Erlanger, Kentucky

In planning and performing our audit of the financial statements of Kenton County Board of Education for the year ended June 30, 2003, we considered the Board's internal controls in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements.

During the course of our audit we select samples of activity for our auditing tests. Through these procedures we became aware of a few matters that are opportunities for strengthening internal controls and operating efficiency. The following summarizes our comments and suggestions regarding these matters. We previously reported on the Board's internal controls in our report dated August 22, 2003. This letter does not affect our report dated August 22, 2003 on the financial statements of the Kenton County Board of Education.

Our findings are presented as follows:

ITEM 01 – ACTIVITY FUNDS

Dixie Heights High School

- Detailed cash receipts books were not kept during the year, noting individual payments received.
- The bank reconciliation includes some outstanding checks that are over one year old. These should be examined and appropriate actions taken.
- The General Ledger Report does not agree to the bank reconciliation due to some accounts that were deleted during the year that still had balances.

Scott High School

- No findings

Simon Kenton High School

- The General Ledger Report does not include an addition of \$10,000 to the Certificate of Deposit.

Summit View Middle School

- One of the invoices selected for testing was approved after the check was written.

Turkeyfoot Middle School

- No findings

Twenhofel Middle School

- No findings

Woodland Middle School

- No findings

Beechgrove Elementary

- One fund had a negative fund balance at year end.

J.A. Caywood Elementary

- Three funds had a negative fund balance at year end.

Fort Wright Elementary

- No findings

Kenton Elementary

- One cash receipt selected for testing was held for 11 days before being deposited.
- Two purchase orders selected for testing were not approved before the purchase was made.

Piner Elementary

- One purchase order selected for testing was not approved before the order was placed.

R.C. Hinsdale Elementary

- No findings

River Ridge Elementary

- No findings

Ryland Heights Elementary

- No findings

Summit View Elementary

- No findings

Taylor Mill Elementary

- No findings

Visalia Elementary

- No findings

White's Tower Elementary

- No findings

Northern Kentucky Youth Development Center

- No findings

Park Hills Center

- One purchase order selected for testing was not approved until after the check was written.

Management's Response

Each school has been requested to submit a corrective action plan in response to the audit comments. Particular emphasis will be made concerning findings that have been reported on prior to this year and have not been resolved.

ITEM 02 – FOOD SERVICE

For the cash disbursement testing, we selected five checks written by the Board and fifteen written by the Food Service personnel. The following are deficiencies found in the fifteen disbursements written by the Food Service personnel:

- Thirteen out of the fifteen invoices were not approved by the Food Service Director.
- Ten out of the fifteen checks were not signed by the Food Service Director.
- Three out of the fifteen checks were signed by the payee.

Management's Response

All food service expenditures will be processed through the centralized accounting system, except emergency purchases. Any food service checks issued manually will be signed by the Food Service Director and the food service accounts payable clerk.

We want to express our appreciation to Dr. Susan Cook, Kelley Gamble, the Board staff and the school secretaries for their courteous assistance during the audit.

VonLehman & Company Inc.

Fort Mitchell, Kentucky
August 22, 2003